

MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND
February 20, 2014

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Thursday, February 20, 2014, at 3:00 p.m. in the second floor conference room of the Fire Department Administrative Building at 204 S. First Street, Rockford, Illinois, pursuant to notice.

CALL TO ORDER

The meeting was called to order at 3:05 p.m. Upon a call of the roll, the following answered:

ATTENDED:	Alan Granite, President	Jim Strey, Trustee
	Tracy Renfro, Secretary	Michael White, Trustee
	Chris Black, City Finance Director (Arrived 3:15 p.m.)	

STAFF:	Ted Dutkiewicz	Judi Yehling, Recording Secretary
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GUESTS:	Attorney Carolyn Clifford , Ottosen Britz	Mike Piotrowski, Marquette Associates
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I. PUBLIC COMMENT -- None

II. MINUTES

- The January 20th minutes were presented. Jim Strey made a motion to approve the minutes and Tracy Renfro seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
Absent:	Chris Black	
Nays:	None	

III. APPROVAL OF APPLICATIONS/PENSION CHANGES

- Firefighter George Lentz died on January 30, 2014, and his service pension will terminate. His surviving spouse, JoAnne Lentz, has made application for surviving spouse benefits. Jim Strey made a motion to terminate George Lentz's service pension and approve the survivor spouse benefit for JoAnne Lentz. Tracy Renfro seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
Absent:	Chris Black	
Nays:	None	

IV. DISBURSEMENTS

- Alan Granite made a motion to approve the February payroll of \$1,315,218.67. Tracy Renfro seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
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Tracy Renfro Michael White
Absent: Chris Black
Nays: None

- Invoices totaling \$64,300.58 were presented as shown in the attached warrant packet. Question was raised as to why Northern Trust Company's third quarter fee was so low. Ted Dutkiewicz explained that the fund balance itself was low as dollars had been removed for other purposes. Alan Granite made a motion to approve the invoices as presented in the warrant packet. Jim Strey seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
Tracy Renfro Michael White
Absent: Chris Black
Nays: None

V. CASH & INVESTMENTS

- Mike Piotrowski presented Marquette Associates' Report for January 2014:
 - The Fund has decreased from the end of the year and is a little overweight to equities which will be used for cash needs.
 - As shown on pages 2 and 3 of Exhibit 1 (the January Flash Report), the Fund lost 1.4% due to concerns over a slowdown and a lack of growth. However, bonds did well – up 1% for the month as bond yields fell.
 - Indicated on page 3, was the performance of the individual funds:
 - Both Hillswick and Segal did well; Montag & Caldwell was down 3.3%; Fiduciary was down 3.5%, Manning was down 4.1% and emerging markets were down 7%.
 - Page 4 showed REITS rebounding nicely at over 4% although Pimco was slightly negative.
 - Overall it was a “tough month,” partially due to some profit taking. In February, however, the markets were up and the Fund gained back everything it lost in January. There has been a return to fundamentals, more differentiation and lots more volatility as the Fed reduces its stimulus program. But this Fund is well diversified.
- Cash needs for the month are \$1.2 million. The recommendation is to take \$600,000 from the Vanguard Value Index and \$600,000 from the Vanguard Institutional Index fund. This recommendation, Mike Piotrowski said, will not affect the asset allocation as these stay the same in all scenarios. Michael White made a motion, seconded by Tracy Renfro, to take \$600,000 from the Vanguard Value Index fund and \$600,000 from the Vanguard Institutional Index fund to meet cash needs for the month. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
Tracy Renfro Michael White
Absent: Chris Black
Nays: None

- Records of purchases and sales were distributed.

Alan Granite made a motion, seconded by Michael White, to approve the purchases and sales for the month. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
Tracy Renfro Michael White
Absent: Chris Black

Nays: None

- Chris Black joined the meeting at 3:15 p.m.
- The Asset Allocation Analysis as presented by Mike Piotrowski was discussed in detail:
 - Page 3 shows where the asset allocation of the Fund is today, compared with several simulations using different asset allocation options. The study then shows the expected returns under the various scenarios, as well as the expected volatility and risk. Thematically, the models look at adding in a new asset class, small cap international, and also replacing large cap growth with mid cap core. Finally, the scenarios include reducing fixed income down to 35% which is the lowest allowed by state statute.
 - Portfolio A substitutes mid cap core for large cap growth, picking up a little more growth along with a little more volatility.
 - Portfolio B reduces small cap by 2.5%, making the same increase in mid cap and adding in international small cap, as well.
 - Portfolio C reduces the amount of fixed income from 37.5% to 35% and allocates 2.5% more to international in both small cap and emerging markets.
 - Portfolios A and B are very similar largely because they keep the fixed allocation the same.
 - In Portfolio C the return goes up 18 basis points with the reduction in fixed income.
 - They ran the simulations 1000 times, and the average return was 7.19% -- a little on the low side. There is a 55% chance that the Fund will not achieve the 7.5% over the next 10 years.
 - The chart at the top of page 10 shows quite a big range for Portfolio C returns – between the 25th and 75th percentile. Returns are improving with a little more volatility since you are putting more in stocks and less in bonds.
 - The return for bonds over the next ten years, as shown on page 8, is expected to be between 2 to 3%.
 - Equity returns are not as high as when they ran the numbers before but real estate helps and will play a bigger role in what we can expect from returns.
 - Per Mike Piotrowski, there is no “ideal” scenario. Losing Montag and Caldwell, changing to a passive manager and going into the mid cap space will provide greater benefit. Montag & Caldwell costs 65 basis points (\$50,000/year) versus 8 basis (\$5,600) for the passively managed Vanguard fund. Montag and Caldwell have been behind for the last five years and while the mid-caps provide more volatility we’d be going from active to passive management.
 - In the international arena, Manning is an all-cap manager. The suggestion is to do a search for a small cap manager. This will provide diversity, and there are quite a few good managers in this space.
 - On the US equity side, the suggestion is to reduce Fiduciary from 10% to 7.5%, adding 3.75% on the non-US side and removing large cap entirely.
 - No matter what portfolio the Board considers, Mike Piotrowski recommends reducing the fixed income allocation to 35%.

- These scenarios provide an historical perspective and show how things look today and the probability for the future. The third line on page 10 shows that more risk is being introduced but "we are getting paid for it."
- Mike Piotrowski cautioned that it should be the themes being looked at and one shouldn't "get caught up in the numbers." The next two to four years are "going to be hard."
- Long term, Marquette believes international will do well.
- Question was asked if more dollars were put in international and less in mid cap, would there be a better return. Mike Piotrowski said there is a bias toward US equity because of less volatility. The Fund can start by putting more into international but not do it all at once. He would like to put together a timeline. He would suggest putting funds from Montag & Caldwell into a mid-cap index fund but put a little more into small cap international than "C" portfolio would suggest but do it gradually.
- Mike Piotrowski said the Board could adopt Portfolio C and change the investment policy.

As far as a timeframe, Mike Piotrowski suggested: (1) cancelling Montag & Caldwell and using Vanguard Institutional for a mid-cap core index fund right away; (2) taking Fiduciary down with cash needs; and (3) then doing a non-US equity small cap search with funding coming from fixed income. This would mean a three to four-month timeline.

Alan Granite made a motion, seconded by Tracy Renfro, to adopt Portfolio C as presented in the Asset Allocation Study. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
 Chris Black
Nays: None

- Michael White made a motion, seconded by Chris Black, to terminate Montag & Caldwell and transfer the assets to the Vanguard Institutional Mid Cap Index (VMCIX). A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
 Chris Black
Nays: None

- Michael White made a motion, seconded by Jim Strey, to perform a search for a non-US small cap equity fund. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
 Chris Black
Nays: None

• Ted Dutkiewicz passed out the report on the status of the Fund as of January 31, 2014:

- The report showed total current market value of the Fund was \$149.27 million, down 2.475% year to date. The equity fund is down 4.012%, and fixed income is up 0.237% at 37.167% of the total Fund.
- Total annual return is at -20.59%*; equity annual return is -48.14%*, a fixed income annual return of 27.17%, and a total income return of 7.39%.

VI. OLD BUSINESS

- There are no updates on the DOI audit report. The DOI has not issued its audit findings to the Board.
- The fiduciary liability policy will be reviewed in a joint meeting next month with the Rockford Police Pension Fund Board at 4:30 p.m. following the regular monthly meeting of the Board. Tim Bowen, a representative of Mesirow, will be there to make a presentation.

VII. CLOSED MEETING – None required.

VIII. NEW BUSINESS

- Alan Granite's three-year term is up this year. Jim Strey has forms and a nomination sheet that will be circulated. Attorney Clifford indicated that if there is only one nominee, then the Board can decide to dispense with the formal election process and declare that person elected by acclamation, in accordance with its rule. Nominations will close by next month and must be picked up by the Monday before the March 20th meeting.
- Jim Strey left the meeting at 3:55 p.m.
- Attorney Clifford brought up for discussion several items:
 - One was the pending pension reform legislation and litigation. She summarized the information she had learned from a recent presentation at a meeting of the Northern Illinois Alliance of Fire Districts. According to discussions there, the legislature is not waiting for the end of the litigation concerning other State funds and is going ahead with proposed changes to Chicago pension funds, as well as the Article 3 and 4 funds. They (the legislators) do understand that they can't characterize these funds broadly; one "fix" does not fit all. If the Illinois Supreme Court finds these reforms unconstitutional, then the legislators have indicated that the State is in trouble. There is talk about taxing pension benefits at the State level. It should take about two years for the court challenge, and there are currently four lawsuits. The next step will be to consolidate the lawsuits.
 - At another panel at the meeting, she cited a Board (Village of North Aurora) who indicated they had adopted a funding policy resolution to stick with the 100% funding and entry age normal. The condition of IMRF was brought up, and she suggested that perhaps the issues could be discussed with Police at the joint March meeting.

IX. Training

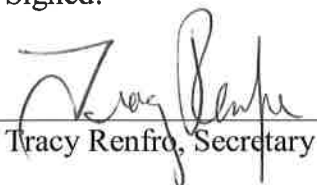
- Marquette will be holding a class next September – its annual symposium, usually from 9:00 a.m. until 2:00 p.m.
- Tracy Renfro will be doing eight hours of training next week. All other Board members are up to date.

X. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 4:10 p.m.

Next regular meeting is March 20, 2014, at 3:00 p.m.

Signed:


Tracy Renfro, Secretary

Prepared by:


Judith Yehling, Recording Secretary

3-20-14

Date

3-20-14

Date

Approved by the Board of Trustees at its March 20, 2014, meeting.

*Per Ted Dutkiewicz these numbers “represent the annual effect on the performance if every month of 2014 was a mirror copy of January. The markets dropped in January.”